



Minnesota Housing Mortgage Loans

Start Up Program Procedural Manual

March 20, 2013

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INTRODUCTION.....	1
MISSION STATEMENT.....	1
BACKGROUND.....	1
PROCEDURAL MANUAL.....	1
MORTGAGE REVENUE BOND PROGRAMS	1
<i>Start Up Program</i>	1
DOWNPAYMENT AND CLOSING COST LOANS.....	1
<i>Deferred Payment Loan (see Chapter 5)</i>	1
<i>Monthly Payment Loan (see Chapter 5)</i>	2
<i>HOME Homeowner Entry Loan Program (see HOME HELP Manual)</i>	2
CHAPTER 1 – LENDER RESPONSIBILITIES AND WARRANTIES	3
1.01 PROCEDURAL MANUAL	3
1.02 EVIDENCE OF MISCONDUCT REFERRED TO ATTORNEY GENERAL	3
1.03 DISCLOSURE AND USE OF SOCIAL SECURITY NUMBER/MINNESOTA TAX IDENTIFICATION NUMBER	4
1.04 UNAUTHORIZED COMPENSATION	4
1.05 MINNESOTA HOUSING DUE DILIGENCE AUDIT GUIDELINES AND REQUIREMENTS	4
1.06 TERMINATION OF LENDER PARTICIPATION	4
1.07 COVENANTS	5
1.08 LENDER COMPENSATION.....	6
1.09 ANNUAL RENEWAL REQUIREMENTS AND FEES	6
CHAPTER 2 - BORROWER ELIGIBILITY.....	7
2.01 BORROWER.....	7
2.02 BORROWER AGE	7
2.03 CO-SIGNERS.....	7
2.04 UNAUTHORIZED COMPENSATION	7
2.05 PRIOR HOMEOWNERSHIP - THREE-YEAR REQUIREMENT	7
2.06 PRINCIPAL RESIDENCE/OCCUPANCY REQUIREMENT	8
2.07 HOMEBUYER EDUCATION	8
2.08 CREDIT SCORES AND DEBT-TO-INCOME (DTI) RATIOS	9
2.09 MINNESOTA HOUSING PROGRAM ELIGIBILITY INCOME.....	9
<i>Non-Borrowing Occupant</i>	10
2.10 LOANS TO EMPLOYEES AND AFFILIATED PARTIES	10
CHAPTER 3 - PROPERTY ELIGIBILITY	11
3.01 ELIGIBLE PROPERTIES	11
3.02 MANUFACTURED/MOBILE HOMES.....	11
3.03 INELIGIBLE PROPERTIES	12
3.04 ACQUISITION COST LIMIT.....	12
3.05 APPRAISED VALUE.....	13
3.06 PERSONAL PROPERTY	13
3.07 EXCESS PROPERTY	13
3.08 COMMUNITY LAND TRUSTS.....	13
3.09 NEW CONSTRUCTION REQUIREMENTS	14
CHAPTER 4 – LOAN ELIGIBILITY	15
4.01 ELIGIBLE LOANS	15
4.02 NEW CONSTRUCTION REQUIREMENTS	15
4.03 INELIGIBLE LOANS.....	16
4.04 SUBSIDY RECAPTURE DISCLOSURE	16
4.05 INTEREST RATE/AMORTIZATION REQUIREMENTS	16
4.06 MORTGAGE TERM.....	16
4.07 LOAN MORTGAGE INSURANCE COVERAGE.....	17
4.08 PRIVATE MORTGAGE INSURANCE COMPANIES – MINIMUM REQUIREMENTS	17

4.09	REFINANCING OF AN EXISTING MORTGAGE	17
4.10	SETTLEMENT/CLOSING COSTS.....	17
4.11	GIFTS	18
4.12	NON-MINNESOTA HOUSING JUNIOR LIENS/COMMUNITY SECONDS	18
4.13	NON-COMPLYING LOANS	18
CHAPTER 5 – DOWNPAYMENT AND CLOSING COST LOANS		19
5.01	DEFERRED PAYMENT LOAN	19
5.02	DEFERRED PAYMENT LOAN BORROWER ELIGIBILITY	19
	<i>Homebuyer Education</i>	19
	<i>Cash Investment</i>	19
	<i>Asset Limit</i>	20
5.03	DEFERRED PAYMENT LOAN REQUIREMENTS	20
5.04	DEFERRED PAYMENT LENDER WARRANTIES.....	20
5.05	MONTHLY PAYMENT LOANS.....	21
5.06	MONTHLY PAYMENT LOAN BORROWER ELIGIBILITY	21
	<i>Income Limits</i>	21
	<i>Homebuyer Education</i>	21
	<i>Cash Investment</i>	22
	<i>Asset Limit</i>	22
5.07	MONTHLY PAYMENT LOAN LENDER WARRANTIES.....	22
5.08	HOUSING CHOICE VOUCHER (HCV) HOMEOWNERSHIP PROGRAM	22
CHAPTER 6 – COMMITMENT/DISBURSEMENT.....		24
CHAPTER 7 – DOCUMENTATION REQUIREMENTS		25
7.01	LOAN PROCESSING AND CLOSING	25
7.02	MINNESOTA HOUSING DOCUMENTATION/DELIVERY REQUIREMENTS	25
7.03	RECORDS RETENTION.....	26
CHAPTER 8 – SERVICING		27
8.01	SERVICING	27
8.02	LENDER SERVICING RESPONSIBILITIES.....	27
8.03	ASSUMPTION/DUE-ON-SALE	27
8.04	HARDSHIP POLICY	28
APPENDIX		29
DEFINITIONS		30
FORMS LIST		32

Introduction

Mission Statement

Minnesota Housing finances affordable housing for low- and moderate-income households while fostering strong communities.

Background

The Minnesota Housing Finance Agency (“Minnesota Housing”) was created in 1971 by the Minnesota Legislature.

Minnesota Housing offers programs funded with mortgage revenue bonds (“MRB”) to finance the purchase of new and existing homes by low- and moderate-income Borrowers. Under the Mortgage Backed Securities (“MBS”) MRB Program, the Master Servicer purchases closed loans originated by private lenders under prescribed program requirements.

Minnesota Housing also provides financial assistance to potential Borrowers who need downpayment and closing cost loans to make homeownership possible.

Procedural Manual

This Procedural Manual sets forth for lenders the terms and conditions under which the Master Servicer will purchase mortgages under Minnesota Housing’s Start Up and downpayment and closing cost loan programs.

Mortgage Revenue Bond Programs

Start Up Program

The Start Up Program offers low-interest loans throughout Minnesota to low- and moderate-income, first-time homebuyer Borrowers through local participating lenders.

Downpayment and Closing Cost Loans

Deferred Payment Loan (see Chapter 5)

Deferred payment loans assist Borrowers with downpayment and/or closing costs with interest-free deferred loans.

Monthly Payment Loan (see Chapter 5)

The Monthly Payment Loan provides an amortizing loan with an interest rate equal to the first mortgage to assist Borrowers with downpayment and closing costs.

HOME Homeowner Entry Loan Program (see HOME HELP Manual)

HOME Homeowner Entry Loan Program (HOME HELP) uses federal HOME dollars to bridge affordability gaps and promote successful homeownership by providing downpayment and closing cost loans to eligible Borrowers.

Chapter 1 – Lender Responsibilities and Warranties

1.01 Procedural Manual

This Procedural Manual, including subsequent changes and additions, is a supplement to the Participation Agreement for Minnesota Housing Single Family Mortgage Backed Securities Mortgage Revenue Bond Programs, as amended or supplemented (hereinafter referred to as the Participation Agreement) for Minnesota Housing mortgage programs executed between the Lender and the Master Servicer and the Lender and Minnesota Housing. It is incorporated into such Participation Agreement by reference and is a part thereof as fully as if set forth in such Participation Agreement at length.

Minnesota Housing reserves the right to:

- Change the program interest rate or rates at any time at its sole discretion;
- Change its Commitment Policy at any time;
- Alter or waive any of the requirements herein;
- Impose other or additional requirements;
- Rescind or amend any or all materials effective as of the date of issue unless otherwise stated; and
- Grant waivers, alterations or make revisions at its sole discretion.

1.02 Evidence of Misconduct Referred to Attorney General

- Minnesota Housing will refer any evidence of fraud, misrepresentation, or other misconduct in connection with the operation of these programs to the Minnesota Attorney General's office for appropriate legal action.
- If, after a loan is made, a Lender discovers any material misstatements or misuse of the proceeds of the loan by the Borrower(s) or others, the Lender shall promptly report such discovery to Minnesota Housing and the Master Servicer.
- Minnesota Housing, or the Master Servicer, or both, may exercise all remedies available to them under the Participation Agreement or otherwise, both legal and equitable, to recover funds from the Lender and/or the Borrower(s). This includes repayment of loan funds, together with all applicable administrative costs and other fees or commissions received by the Lender in connection with the loan and reimbursement of all attorney fees, legal expenses, court costs or other expenses incurred by Minnesota Housing in connection with the loan or recovery thereof.

1.03 Disclosure and Use of Social Security Number/Minnesota Tax Identification Number

The Minnesota Revenue Recapture Act (Minnesota Statutes, Sections 270A.01 to 270A.12, as amended) allows the disclosure of the Borrower(s) Social Security Number or Minnesota Tax Identification Number to the Minnesota Department of Revenue. This could result in the application of state tax refunds to the payment of any delinquent indebtedness of the Borrower(s) to Minnesota Housing.

1.04 Unauthorized Compensation

Lender may receive fees approved in this Procedural Manual. However, Lender shall not receive or demand from realtor, builder, property seller or Borrower(s):

- Kickbacks;
- Commissions; or
- Other compensation.

1.05 Minnesota Housing Due Diligence Audit Guidelines and Requirements

The Lender is required to keep on file a complete copy of documents for each loan originated for purchase by the Master Servicer. A loan file may be requested to be forwarded to Minnesota Housing for review. Loan audits will include, but are not limited to, a minimum of 10% of all loans purchased by the Master Servicer.

Audited loans are reviewed for:

- Mortgage revenue bond law compliance;
- Minnesota Housing program/policy compliance;
- Fraud or misrepresentation on the part of any party involved in the transaction; and
- Trends and/or other indicators that may have an impact on the success of the Borrower(s) and programs.

1.06 Termination of Lender Participation

Minnesota Housing may terminate the participation of any Lender under the programs at any time and may preclude Lender's future eligibility for reasons including, but not limited to, nonconformance with:

- This Procedural Manual;
- The Participation Agreement;
- The Master Servicer's Lender Guide;
- The Federal Fair Housing Law and/or the Equal Credit Opportunity Act;

- Any federal or state laws or acts that protect the Borrowers' rights with regard to obtaining financing for homeownership; and
- Other applicable state and federal laws, rules and regulations.

Upon termination of a Lender's contract, the Master Servicer will continue to purchase eligible loans for which a commitment has been issued until the commitment expiration date.

- Minnesota Housing will not refund participation fees to the Lender.
- Minnesota Housing may, at its option, impose remedies other than termination of the contract for Lender nonperformance.
- Lender may request reinstatement into Minnesota Housing programs. The decision to reinstate a Lender shall be at Minnesota Housing's and/or the Master Servicer's sole discretion.

1.07 Covenants

The Lender agrees to comply with all applicable federal, State, and local laws, ordinances, regulations and orders, including but not limited to the following as then in effect (and any applicable rules, regulations and orders thereunder):

- Title VI of the Civil Rights Act of 1964;
- Title VII of the Civil Rights Act of 1968, as amended by the Housing and Community Development Act of 1974;
- Section 527 of the National Housing Act;
- Equal Credit Opportunity Act;
- Fair Credit Reporting Act;
- Executive Order 11063, Equal Opportunity in Housing, issued by the President of the United States on 11/20/62;
- Federal Fair Housing Act (Title VIII of the Civil Rights Act of 1968);
- Minnesota Human Rights Act – Minnesota Statutes Chapter 363A;
- Data Privacy - Minnesota Statutes Chapter 13 and Section 462A.065;
- Minnesota S.A.F.E. Mortgage Licensing Act of 2010 – Minnesota Statutes Chapters 58 and 58A;
- Americans with Disabilities Act;
- Fair and Accurate Credit Transactions Act;
- National Flood Insurance Act;
- Truth In Lending Act;
- Home Mortgage Disclosure Act;
- Anti Predatory Lending Act;
- USA Patriot Act;
- Bank Secrecy Act;
- Anti-Money Laundering and Office of Foreign Assets Control Policy;
- Internal Revenue Code of 1986, Section 6050H; and

- Real Estate Settlement Procedures Act of 1974.

In addition to the above-listed covenants, the Lender will have examined:

- The person who confirms on the HDS SF Web Application the Lender Representations and Warranties on behalf of the Lender has the authority to legally bind the Lender and is fully conversant with:
 - ◇ The Master Servicer's requirements;
 - ◇ Minnesota Housing program requirements;
 - ◇ The underlying loan product and insurer/guarantor requirements; and
- The Lender is in compliance with all terms, conditions and requirements of:
 - ◇ The Participation Agreement;
 - ◇ This Procedural Manual; and
 - ◇ The Master Servicer's Lender Guide unless those terms, conditions and requirements have been specifically waived by Minnesota Housing or the Master Servicer, as applicable, in writing.

1.08 Lender Compensation

Lender is compensated for each loan purchased by the Master Servicer as follows:

- Origination fee collected from the Borrower(s) in accordance with RESPA.
- Service release premium paid by the Master Servicer in an amount established by Minnesota Housing and posted on the Minnesota Housing website.

1.09 Annual Renewal Requirements and Fees

- Lender must meet the minimum loan volume requirements as specified by Minnesota Housing or by the Master Servicer, whichever is greater.
- Lender must be approved by both Minnesota Housing and US Bank MRBP to originate Minnesota Housing loans.

Chapter 2 - Borrower Eligibility

2.01 Borrower

One individual or multiple individuals are eligible to be a Borrower only if such individual or individuals meet the requirements of this Procedural Manual.

2.02 Borrower Age

Borrower(s) must be 18 years of age or older or have been declared emancipated by a court having jurisdiction.

2.03 Co-Signers

Non-occupant co-signers are not allowed on first mortgage loans. All Borrowers must occupy the property as their primary residence.

2.04 Unauthorized Compensation

Borrower(s) shall not receive kickbacks, rebates, discounts, and/or compensation from any subcontractor, realtor or property seller.

2.05 Prior Homeownership - Three-Year Requirement

Borrower(s) may not have had an ownership interest in a Principal Residence at any time during the three year period ending on the date of execution of the mortgage. This requirement applies to any person who will execute the note, and will have a present ownership interest in the property being financed.

- Present ownership interest includes:
 - ◊ A fee simple interest;
 - ◊ An individual tenancy, joint tenancy, a tenancy in common, or a tenancy by the entirety;
 - ◊ The interest of a tenant shareholder in a cooperative;
 - ◊ A life estate;
 - ◊ A leasehold estate or a leasehold estate subject to a Community Land Trust;
 - ◊ A land contract, under which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time;
 - ◊ An interest held in trust for the Borrower(s) (whether or not created by the Borrower(s)) that would constitute a present ownership interest if held directly by the Borrower(s);
 - ◊ Vendee interest in a contract for deed; or
 - ◊ An ownership interest in a mobile home that is taxed as real estate.

- Interests that do not constitute a present ownership interest include:
 - ◊ Remaindermen interest;
 - ◊ An ordinary lease with or without an option to purchase;
 - ◊ A mere expectancy to inherit an interest in a Principal Residence;
 - ◊ The interest that a purchaser of a residence acquires on the execution of an accepted offer to purchase real estate;
 - ◊ An interest in a non-Principal Residence during the previous three years (e.g. recreational/seasonal home);
 - ◊ An ownership interest in a mobile home which is not permanently attached to the land and is taxed as Personal Property; or
 - ◊ Pre-existing interest in the subject property.
- Required Documentation - Tax Returns:
 - ◊ To verify that the Borrower(s) meets the three-year requirement, the Lender must obtain copies of signed federal income tax returns filed by the Borrower(s) for the three years immediately preceding execution of the mortgage documents (loan closing). The Lender should examine the tax returns and the credit report for any evidence that the Borrower(s) may have owned a principal residence during the past three years. The Lender should examine the tax returns and the credit report for any evidence that the Borrower(s) may have claimed deductions for property taxes or mortgage interest deductions on a primary residence. The Borrower(s) may also provide the Lender with an affidavit that he/she was not required to file an Income Tax Return during one or all of the preceding three years. See Chapter 7 – Documentation Requirements for acceptable alternative formats of federal income tax returns.
- Special Documentation for Current Ownership:
 - ◊ A Borrower(s) with a current ownership interest in a residence within the most recent three year period must be able to provide evidence (e.g. copy of rental agreement/lease) showing that they have not lived in the dwelling during the most recent three year period.

2.06 Principal Residence/Occupancy Requirement

Borrower(s) must intend to occupy the financed dwelling as a Principal Residence within 60 days after the closing of the loan. A certification of the owner occupancy is to be made by the Borrower(s) in the Borrower Affidavit.

2.07 Homebuyer Education

Qualified Homebuyer Education¹ is required for Borrowers securing Minnesota Housing financing under the following:

- Fannie Mae HFA Preferred (Conventional);
- Fannie Mae HFA Preferred Risk Sharing™ (Conventional); and

¹ Available courses are listed on the Homeownership Center website at: <http://www.hocmn.org>

- Borrowers receiving funds for downpayment or closing cost loans through the Deferred Payment Loan, the Monthly Payment Loan or HOME HELP loans.

Homebuyer education may be delivered either by instructors trained under Home Stretch or NeighborWorks® America in a classroom setting or via the Minnesota Home Ownership Center's Framework, an online home buyer education platform. Homebuyer education must be completed prior to closing.

The above noted requirements will be satisfied when at least one Borrower per household provides a certificate of completion.

2.08 Credit Scores and Debt-to-Income (DTI) Ratios

A credit score of 640 or higher is required of all Borrower(s). If the credit report reflects three credit scores for the Borrower(s), use the middle score to determine Borrower eligibility. If the credit report reflects only two scores for the Borrower(s), use the lower of the two scores to determine Borrower eligibility.

- If the Borrower(s) have a credit score greater than or equal to 640 and less than 660, the DTI may not exceed 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If the Borrower(s) have a credit score of 660 or higher, the maximum DTI may not exceed 50% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If there are multiple Borrowers in a transaction and all have credit scores, the score from the Borrower with the lowest credit score will determine the maximum DTI.
- If no Borrower(s) have credit scores, alternative credit suggesting a prudent underwriting risk must be developed; and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- If one Borrower has a credit score of at least 640 but the other Borrower(s) do not have a credit score, the question of whether alternative credit must be developed for the Borrower(s) without a score is deferred to the underlying loan product guidelines and the maximum DTI is 45% or the maximum DTI permitted by the underlying mortgage product, whichever is lower.
- The Borrower(s) must have a minimum credit score of 680 for all HFA Preferred Risk Sharing loans.

2.09 Minnesota Housing Program Eligibility Income

Gross annual household income is the gross annual projected household income as of the date of the mortgage application of all persons residing or

intending to reside in a property from whatever source derived (with the exception of incidental income from after school employment of persons under 18 years of age) and before taxes or withholdings.

The Minnesota Housing maximum gross household income cannot exceed the amounts listed on Minnesota Housing's website.

Gross annual projected household income includes but is not limited to:

- Salary, commissions, overtime, shift differential, bonuses, tips, earnings from part-time employment;
- Interest, dividends, gains on sale of securities;
- Annuities, pensions, royalties;
- Veterans Administration compensation, public assistance, social security benefits, unemployment compensation and sick pay;
- Net rental income (including contract-for-deed income), income received from business activities or investments;
- Alimony, child support;
- Estate or trust income; and
- Transfer payments such as social security, disability, unemployment insurance, workers compensation, veterans' benefits, pensions and other government/public assistance.

Non-Borrowing Occupant

The income of all occupants must be verified and considered for the purposes of determining whether the Minnesota Housing maximum income limits have been exceeded even if a non-borrowing occupant's income is not considered for credit underwriting purposes.

2.10 Loans to Employees and Affiliated Parties

Lender may make Minnesota Housing loans to their directors, officers, employees and/or their families as well as to builders, realtors and/or their families, and any other principal with whom the Lender does business. Minnesota Housing employees and/or their families are also eligible. The Borrower(s) must meet all eligibility criteria for the program.

Chapter 3 - Property Eligibility

3.01 Eligible Properties

Properties eligible for a loan under Start Up must be located in the State of Minnesota and may include any of the following housing types:

- A single-family detached residence;
- A unit within an eligible Planned Unit Development ("PUD");
- An eligible unit of a condominium;
- A duplex (the Borrower(s) must occupy one unit of a duplex property AND the duplex property must have been a residence for at least five years prior to the date of the new mortgage, i.e. not new construction or recently converted from non-residential use);
- A manufactured home permanently affixed to a foundation and taxed as real property, financed with a government insured/guaranteed loan, and that meets the requirements outlined in Section 3.02 of this Procedural Manual; or
- A modular home built to state building codes and delivered to the site in modular sections. Modular homes are acceptable for all financing types, subject to loan product guidelines and the approval of the mortgage insurer/guarantor.

3.02 Manufactured/Mobile Homes

Homes built to Federal Manufactured Home Construction Safety Standards, administered by HUD. The homes are built on wheeled chassis, which remain a basic structural element.

- Manufactured/mobile homes are acceptable only for government insured/guaranteed loan products if they meet the following requirements:
 - ◊ Foundation: Permanently attached and anchored per manufacturer specifications to a basement, slab or footings to frost line;
 - ◊ Wheels, axles and trailer hitches must be removed;
 - ◊ Units must be assessed as real estate for property tax purposes; and
 - ◊ Units must meet the requirements of the underlying loan product and the applicable insurer/guarantor.

3.03 Ineligible Properties

Properties not eligible for financing are as follows:

- A unit in a Cooperative Corporation or a limited equity Cooperative Corporation;
- Recreational/seasonal home;
- Single-wide mobile/manufactured home even if permanently affixed to a foundation and taxed as real property;
- A property intended to be used as an investment property (except the rental of a second unit in a duplex);
- A newly constructed duplex or a duplex converted from nonresidential use in the past five years;
- A property where 15% or more of the total area of the property is used primarily in a trade or business in a manner which would permit the Borrower(s) to take a deduction for any portion of the costs of the property for expenses incurred in connection with such trade or business use of the property on the Borrowers' federal income tax return;
- Manufactured/Mobile homes financed with Fannie Mae HFA Preferred (conventional) loan product; or
- Newly constructed residences with private septic systems located within Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright counties.

3.04 Acquisition Cost Limit

Acquisition Cost is the cost of acquiring an eligible property from the Property Seller as a completed residential unit. The Acquisition Cost of a property may not exceed the amounts listed on Minnesota Housing's website.

Acquisition Cost includes:

- All amounts paid either in cash or in kind, by the Borrower(s) (or by a related party for the benefit of the Borrower(s)) to the Property Seller (or to a related party for the benefit of the Property Seller) as consideration for the property;
- All amounts paid by or on behalf of the Borrower(s) and required to complete or repair a residence whether or not the cost of such completion or repairs is to be financed with the proceeds of a Minnesota Housing loan (which may be agreed upon beyond the contractually provided purchase price);
- The purchase price as well as all repair costs for FHA 203K Streamlined loans;
- All land cost or land value as stated in New Construction Requirements Section 3.09; and
- All special assessments paid or assumed by the Borrower(s).

Acquisition Cost does not include:

- Usual and reasonable closing or financing costs; or
- Any special assessments paid by the Property Seller.

3.05 Appraised Value

The appraised value of the subject property may not exceed 125% of the applicable Acquisition Cost Limit.

3.06 Personal Property

Personal Property may not be financed or listed as part of the total Minnesota Housing purchase transaction between the Borrower(s) and Property Seller. Only permanently affixed property (fixtures) are eligible for financing.

3.07 Excess Property

The financing of a property may include only land necessary to maintain the “basic livability” of the dwelling.

- The land being financed may not provide other than incidental income to the Borrower(s);
- The appraiser must state that the subject lot is not greater in size than other residential parcels in the community; and
- The land may not comprise more than one parcel or be eligible for legal subdivision unless the appraiser states that the land is commensurate in size with other residential parcels in the community, and the Borrower(s) must certify that he or she has no intention of selling or leasing any portion of the land being financed.

3.08 Community Land Trusts

If a property is located in a Community Land Trust (“CLT”), the CLT must meet the following requirements:

- Borrower receives a full disclosure of their rights and obligations under the trust, including future limitations on sale;
- Borrower has access to secondary mortgage market products; and
- The terms and conditions of the CLT are compatible with the National CLT Network model and otherwise satisfactory to Minnesota Housing.

3.09 New Construction Requirements

In addition to the property eligibility requirements stated in Section 4.02 of this Procedural Manual, a New Construction property must meet the following requirements:

- A property located within Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington and Wright counties must be serviced by a regional waste water treatment center or by a treatment system owned and operated by a local unit of government;
- The land must be zoned for residential housing;
- The land must not have been annexed within the previous calendar year;
- The cost of land purchased within the 24 months prior to the date on which construction begins must be included in the Acquisition Cost;
- The value of land, as determined by the appraiser, must be used to determine Acquisition Cost if the land was purchased more than 24 months prior to the date on which construction begins or through a non-arms length transaction;
- Any temporary financing (e.g. construction loan, bridge loan, contract for deed) provided prior to the date of the loan closing may not exceed 24 months in term;
- Land equity (the dollar value of the difference between land value/cost and the total amount the Borrower owes against the land) may be used by a Borrower only as a downpayment;
- A Certificate of Occupancy must be issued for the property prior to loan closing; and
- The Borrower(s) may not act as the General Contractor.

Chapter 4 – Loan Eligibility

4.01 Eligible Loans

The Master Servicer purchases closed loans from Lenders under contract in Minnesota Housing mortgage loan programs. The Lender must warrant that the following criteria have been met for each loan submitted for purchase.

Eligible loan products include:

- Conventional Fannie Mae HFA Preferred™ with the Desktop Underwriter® (DU®) findings of Approve/Eligible;
- Fannie Mae HFA Preferred Risk Sharing™;
 - ◊ originated by participating lenders that have fully executed the HFA Preferred Risk Sharing™ Supplement to the Participation Agreement and,
 - ◊ with DU® findings of Approve/Eligible;
- Federal Housing Administration (FHA) purchase transactions;
- FHA 203(k) Streamlined Purchase;
- Veterans Administration (VA); and
- Rural Development (RD).
- All local, state and federal laws and regulations including those relating to affirmative action, fair housing, equal opportunity, truth-in-lending and wrongful discrimination in residential housing have been met;
- Minnesota Housing First-Time Homebuyer, program income and property acquisition requirements have been met; and
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has gained an Individual Commitment of funds from Minnesota Housing via the HDS SF Web Application.

4.02 New Construction Requirements

In addition to the loan eligibility requirements already stated in this Procedural Manual (Section 3.09), a New Construction property must meet the following requirements:

- Minnesota Housing funds are not used for temporary initial financing (e.g. interim or construction financing);
- All sweat equity meets the requirements of the applicable loan product and insurer/guarantor, as well as the following:
 - ◊ Work was performed by the Borrower or members of a Borrower's family, specifically, the Borrower's brothers and sisters (whether by whole or half blood), spouse, or lineal descendants;
 - ◊ Individuals that perform the work must be qualified to do the specific type of work;

- ◇ The maximum dollar amount of the sweat equity does not exceed \$5,000;
- ◇ Sweat equity is not a part of Acquisition Cost; and
- ◇ Sweat equity includes only the value of work and not the cost of materials.

4.03 Ineligible Loans

Ineligible loans include, but are not limited to, HFA Preferred™ and HFA Preferred Risk Sharing™ loans that receive a Refer with Caution recommendation under Fannie Mae's Desktop Underwriter® and HFA Preferred Risk Sharing™ loans where the Borrower's credit score is less than 680.

4.04 Subsidy Recapture Disclosure

Federal law requires that all loans funded by mortgage revenue bonds be subject to subsidy recapture regulations. Subsidy recapture enables the federal government to collect some of the subsidy realized by Borrower(s) from the interest rate differential resulting from the mortgage revenue bond financing.

Such subsidy is collected through the payment of income taxes to the Internal Revenue Service upon sale or disposition of the Borrower's home. Recapture applies, in varying degrees, only within the first nine years of the loan and is required only from the Borrower whose household income increases significantly during the recapture period and that make a gain on the sale of their home.

To ensure understanding and disclosure of subsidy recapture, Lenders must:

- Explain subsidy recapture to the Borrower(s) at the time of loan application; and
- Require the Borrower(s) to sign the completed Subsidy Recapture Disclosure Statement prior to or at the time of closing.

4.05 Interest Rate/Amortization Requirements

Minnesota Housing requires all loans:

- Have a fixed interest rate;
- Be fully amortized over the term of the loan; and
- Be payable on the first of each month in level installments that include at least principle and interest.

4.06 Mortgage Term

Loans must have a 15-year or 30-year term.

4.07 Loan Mortgage Insurance Coverage

- Loans with a loan-to-value ratio in excess of 80% must be insured/guaranteed by a mortgage insurer that is acceptable to Minnesota Housing, including:
 - ◊ FHA;
 - ◊ VA;
 - ◊ RD;
 - ◊ Fannie Mae HFA Preferred (Conventional loan with private mortgage insurance (PMI)); or
 - ◊ Fannie Mae HFA Preferred Risk Sharing™ loans with a loan-to-value ratio in excess of 80% are not required to have private mortgage insurance coverage.

4.08 Private Mortgage Insurance Companies – Minimum Requirements

All private mortgage insurance companies must:

- Be licensed to do business in the State of Minnesota; and
- Maintain a rating of A2 from Moody's Investor Services and AA from Standard and Poor's Corporation at the time the mortgage loan is purchased by the Master Servicer, or possess Fannie Mae and Freddie Mac approval.

4.09 Refinancing of an Existing Mortgage

Minnesota Housing does not allow the refinancing of an existing loan unless the loan is used to replace or refinance temporary initial financing that has an original mortgage term of 24 months or less such as:

- Construction or interim loans; or
- Bridge loans or gap loans.

4.10 Settlement/Closing Costs

Settlement/closing costs, fees or charges the Lender collects from any party in connection with any loan must:

- Comply with Minnesota law;
- Meet all requirements of the insurer/guarantor;
- Not exceed an amount deemed usual or reasonable for the type of transaction being closed (e.g. FHA, VA);
- Not exceed the actual amounts expended for any item (e.g. credit report, appraisal); and
- Ensure the Borrower does not pay more than a pro-rata share of property taxes.

4.11 Gifts

All gifts received by Borrower(s) for a Minnesota Housing loan must satisfy the requirements of the applicable first mortgage loan product and the insurer/guarantor.

4.12 Non-Minnesota Housing Junior Liens/Community Seconds

All junior liens/community seconds (including resale restrictions) used in conjunction with a Minnesota Housing loan must comply with the following:

- All requirements of the applicable first mortgage loan product and insurer/guarantor;
- The junior lien with the larger loan amount takes prior position (2nd position) if combined with Deferred Payment Loans;
- The Monthly Payment Loan must take 2nd position;
- Junior liens do not reduce Acquisition Cost;
- A Borrower may receive cash back at closing from junior lien proceeds only when the cash back represents a refund of the Borrower's own investment as allowed by the first mortgage product; and
- Minnesota Housing requires full disclosure of any and all junior liens.

4.13 Non-Complying Loans

Minnesota Housing and/or the Master Servicer shall have the right to take one or more of the following actions in the event a Lender submits a mortgage loan that does not, as determined by Minnesota Housing or the Master Servicer, comply with the requirements of this Procedural Manual:

- Adjust the purchase price of the non-complying loan;
- If not already purchased, refuse to purchase the loan;
- If already purchased, require the Lender to repurchase the loan for the purchase price;
- Terminate, suspend, or otherwise limit the Lender's Participation Agreement with Minnesota Housing and/or the Master Servicer; and
- Preclude the Lender from future participation in Minnesota Housing programs.

Chapter 5 – Downpayment and Closing Cost Loans

The downpayment and closing cost loan options available with Start Up include the Deferred Payment Loan, the Monthly Payment Loan and HOME HELP. The three options provide assistance to pay for eligible expenses including downpayment and customary buyer closing costs.

5.01 Deferred Payment Loan

Deferred Payment Loans:

- Provide assistance to pay for eligible Borrower expenses including downpayment and customary closing costs;
- Are available only in increments of \$100 up to the greater of 3% of the purchase price (rounded up to the nearest \$100), or \$3,000;
- Are available only in conjunction with a first mortgage loan purchased by the Master Servicer under a Minnesota Housing Mortgage Revenue Bond program; and
- Are not permitted in conjunction with the Fannie Mae HFA Preferred Risk Sharing™ product.

5.02 Deferred Payment Loan Borrower Eligibility

The Borrower(s) must earn less than 60% of area median income tiered by household size (see Deferred Payment Loan Income Limits on Minnesota Housing's website).

Homebuyer Education

Homebuyer Education is required for all Borrowers who receive Deferred Payment Loans.

Homebuyer education may be delivered either by instructors trained under Home Stretch or NeighborWorks® America in a classroom setting or via the Minnesota Home Ownership Center's Framework, an online home buyer education platform. Homebuyer education must be completed prior to closing.

The above noted requirements will be satisfied when at least one Borrower per household provides a certificate of completion.

Cash Investment

A minimum cash investment of the lesser of 1% of the purchase price or \$1,000, including prepaids, is required. The cash investment must come from the Borrower's assets and may not be a gift, grant, loan or sweat equity contribution.

Asset Limit

A Borrower's liquid assets after closing are limited to the greater of eight months principal, interest, taxes, and insurance or \$8,000.

Cash to the Borrower at Closing

Borrowers may receive cash back at closing only when all of the following criteria apply:

- The cash to the Borrower at closing represents a refund of dollars paid outside of closing is and reflected on the HUD-1 Settlement Statement;
- The cash to the Borrower at closing does not compromise the Borrower's minimum cash investment requirement; and
- The underlying first mortgage product and the insurer/guarantor allow the refund.

5.03 Deferred Payment Loan Requirements

- Deferred Payment loans may be combined only with Minnesota Housing First-Time Homebuyer loan products with a 30-year term;
- The Deferred Payment Loan may not be originated with the HFA Preferred Risk Sharing Product;
- The Borrower(s) must repay the loan in full when, among other things:
 - ◊ The maturity date of the Deferred Payment loan is reached
 - ◊ The property is sold or transferred
 - ◊ The first mortgage is paid in full, upon a refinancing or otherwise
 - ◊ The first mortgage is in default or becomes or is declared to be due and payable in full, or
 - ◊ At such time as the property is no longer owner-occupied by the Borrower(s);
- The Deferred Payment Loan is a junior lien; and
- A Deferred Payment Loan cannot be assumed.

5.04 Deferred Payment Lender Warranties

In addition to the warranties stated in Section 1.07 Lender warrants the following:

- Borrower's cash investment is paid from Borrower's out of pocket funds;
- Borrower's liquid asset reserves after closing are not more than the greater of 8 months' PITI or \$8,000; and
- Deferred Payment monies received by Borrower(s) are being applied to the transaction and verified through the HUD-1 closing statement.

5.05 Monthly Payment Loans

Monthly Payment Loans provide assistance to pay for eligible expenses, including downpayment and customary buyer closing costs. Monthly Payment Loans:

- Are available only in conjunction with a Minnesota Housing first mortgage loan;
- Are available in increments of \$100 up to the greater of 5% of the purchase price (rounded up to the nearest \$100), or \$5,000;
- FHA 203K Streamlined Purchases are available in increments of \$100 up to the greater of 5% of the purchase price plus the cost of repairs (rounded up to the nearest \$100), or \$5,000;
- Must occupy second lien position when combined with a non-Minnesota Housing Community Second Mortgage;
- Have an interest rate equal to that of the first mortgage;
- Are fully amortizing and are payable in level monthly payments over a 10-year term;
- Are due on the first of each month, beginning with the due date of the initial monthly payment for the first mortgage;
- Must be paid in full upon:
 - ◊ Sale or refinance of the property
 - ◊ Transfer of title to the property
 - ◊ Payment in full of the first mortgage at maturity, or
 - ◊ The first mortgage is declared due and payable whether through default or other event; and
- May be originated with the HFA Preferred Risk Sharing Product™; and
- May not be assumed.

5.06 Monthly Payment Loan Borrower Eligibility

Borrowers must satisfy all Start Up eligibility requirements as well as the following additional requirements for the Monthly Payment Loan.

Income Limits

Start Up income limits apply to Monthly Payment Loan Borrowers.

Homebuyer Education

Homebuyer Education is required for all Borrowers who receive Monthly Payment Loans.

Homebuyer education may be delivered either by instructors trained under Home Stretch or NeighborWorks® America in a classroom setting or via the Minnesota Home Ownership Center's Framework, an online home buyer education platform. Homebuyer education must be completed prior to closing.

The above noted requirements will be satisfied when at least one Borrower per household provides a certificate of completion.

Cash Investment

A minimum cash investment of the lesser of 1% of the purchase price or \$1,000, including prepaids, is required. The cash investment must come from the Borrower's assets and may not be a gift, grant, loan or sweat equity contribution.

Asset Limit

Monthly Payment Loans have no asset limit.

Cash to the Borrower at Closing

Borrowers may receive cash back at closing only when all of the following criteria apply:

- The cash to the Borrower at closing represents a refund of dollars paid outside of closing is and reflected on the HUD-1 Settlement Statement;
- The cash to the Borrower at closing does not compromise the Borrower's minimum cash investment requirement; and
- The underlying first mortgage product and the insurer/guarantor allow the refund.

5.07 Monthly Payment Loan Lender Warranties

In addition to the warranties stated in Section 1.07, the Lender warrants the following:

- Borrower's cash investment is paid from Borrower's own funds; and
- Funds received by the Borrower(s) are being applied to the transaction and verified through the HUD-1 closing statement.

5.08 Housing Choice Voucher (HCV) Homeownership Program

The HCV Homeownership Program allows HUD Section 8 recipients to use their voucher subsidy to meet monthly homeownership expenses. Lenders originating HCV Homeownership loans must:

- Complete the US Bank Home Mortgage MRBP Section 8 Homeownership Subsidy Program Agreement and Home Choice/Section 8 Contract Information Form; and

- Service the loans prior to purchase by the Master Servicer in compliance with this Procedural Manual. This involves collecting a portion of the monthly payment from the Borrower(s) and a portion of the monthly payment from the public housing authority.

Chapter 6 – Commitment/Disbursement

See Minnesota Housing's website for Commitment Periods and terms.

Chapter 7 – Documentation Requirements

7.01 Loan Processing and Closing

All loans submitted to Minnesota Housing for approval must meet the following requirements:

- Loans must be closed and disbursed prior to requesting Minnesota Housing loan Funding Approval via the HDS SF Web Application;
- Lender must follow all mortgage industry regulatory and compliance provisions throughout the processing of the loan;
- All loan documents must be industry standard and meet the requirements of the Master Servicer, the underlying loan product and the insurer/guarantor, as applicable;
- All loan documents must be complete, accurate and reviewed by the Lender at the various and appropriate stages of the loan;
- For loans underwritten utilizing industry standard automated underwriting systems, Minnesota Housing requires full documentation when verifying income and assets to confirm Minnesota Housing eligibility;
- Minnesota Housing or industry-standard forms may not be altered in any way other than to add a company name and logo;
- The loan must be originated and closed in, or assigned to, the name of the Lender that is a party to the Participation Agreement and that has received an Individual Commitment of Funds from Minnesota Housing;
- All mortgage assignments (except HOME HELP mortgage assignments) must run directly from the Lender to the Master Servicer; and
- Lender must submit final documents to the Master Servicer within 120 days of Master Servicer's loan purchase.

7.02 Minnesota Housing Documentation/Delivery Requirements

The Master Servicer provides the Delivery Checklist form detailing specific documentation/delivery requirements. Lender must fully execute and deliver documents within designated timeframes. In addition, Lenders must specifically warrant the following:

- Borrower Affidavit has been signed, and duly notarized, by each Borrower who signs the note and intends to reside in the property as their Principal Residence;
- Lender has obtained, and reviewed, applicable documentation to determine compliance with the certifications on the Borrower Affidavit as it pertains to the mortgage revenue bond First-Time Homebuyer requirements;

- Documentation includes, but is not limited to:
 - ◊ Signed Federal income tax returns (IRS Form 1040 and all its versions) for the preceding 3-year period; or
 - ◊ The computer generated form for electronically filed returns showing the line numbers and all corresponding entries; or
 - ◊ A letter from the IRS indicating the type of tax return filed and the significant line entries from the return;
- Lender has obtained a signed, written explanation from any Borrower(s) if there is any indication that the Borrower has had an ownership interest in a primary residence within the past three years. Any such interest must be documented and verified to provide reasonable assurance that there was no actual ownership in a primary residence;
- Property Seller Affidavit has been signed, and duly notarized, by those persons conveying the residence and/or land to the Borrower(s);
- Lender has reviewed any and all contracts in connection with the residence sale transaction to ensure total compliance with this manual; and
- Subsidy Recapture Disclosure Statement has been completed and signed by each Borrower prior to or at closing.

Documentation not delivered to the Master Servicer within the specified time frames, may result, at Minnesota Housing's or the Master Servicer's discretion, in the Lender being required to repurchase the loan, or any other remedy as identified in this Procedural Manual. Minnesota Housing and/or the Master Servicer may also, at its discretion, extend the aforementioned timeframes.

7.03 Records Retention

Lender must retain any and all compliance documents (including compliance with Minnesota Housing program guidelines) as may be required by the Lender's regulatory authority, the requirements of the underlying loan product and the requirements of the insurer/guarantor, as appropriate.

Loan product and insurer/guarantor minimum and/or alternative documentation requirements does not relieve the Lender from the responsibility of acquiring and maintaining complete files, including any and all documents and materials as would customarily be required for servicing and/or loan audit.

Chapter 8 – Servicing

8.01 Servicing

Minnesota Housing may, at its discretion, subject to any contractual provisions between Minnesota Housing and the Master Servicer, change the Master Servicer.

8.02 Lender Servicing Responsibilities

Notwithstanding anything to the contrary contained in the Participation Agreement, during the period from loan closing to Master Servicer purchase the Lender must collect and apply all loan payments for the Start Up Loan, the Monthly Payment Loan and the Deferred Payment Loan, if applicable, made by the Borrower(s). Loan payments collected must include:

- Start Up Loan monthly principal and interest;
- Monthly Payment Loan monthly principal and interest, if applicable;
- 1/12th of annual property tax;
- Mortgage insurance, if applicable;
- Flood insurance, if applicable;
- Hazard insurance (escrows); and
- Assessments, if applicable.

In addition the Lender must complete the following servicing activities for the Start Up Loan and, if applicable, the Monthly Payment Loan:

- Maintain payment history indicating:
 - ◊ Breakdown of principal, interest and escrows;
 - ◊ Any principal repayments;
 - ◊ Remaining principal balance of loan; and
 - ◊ Collection of any past due payments.

8.03 Assumption/Due-On-Sale

A Minnesota Housing loan financed with either a Conventional (HFA Preferred or HFA Preferred Risk Sharing) or Rural Development loan product is due upon sale and may not be assumed.

A Minnesota Housing loan financed with either a Federal Housing Administration (FHA) or Veterans Administration (VA) loan product may be assumed only by persons who:

- At the time of the assumption, intend to occupy the property as their Principal Residence within 60 days of closing;
- Have not had an ownership interest in a Principal Residence (other than the property being purchased with the proceeds of the loan) during the

three year period ending on the day the Borrower(s) executed the loan application;

- Do not have gross household income that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing’s Website); and
- Are not purchasing or acquiring the residence at an Acquisition Cost that exceeds the current Minnesota Housing limits (see Federal Purchase Price Limits – Assumption on Minnesota Housing’s Website).

Unless the loan is assumed in accordance with the above provisions, the loan is due upon sale or transfer of title.

8.04 Hardship Policy

Minnesota Housing has in place a hardship policy for its Deferred Monthly Payment loans that allows forgiveness either in part or whole if the Borrower is experiencing severe financial hardships that prevent him or her from paying back full indebtedness.

Appendix

[Definitions](#)

[Forms List](#)

Definitions

All terms used in the Procedural Manual use mortgage industry standard definitions except for the following:

Term	Definition
Acquisition Cost	The cost of acquiring a completed residential unit (See section 3.04).
First-Time Homebuyer	A Borrower who meets the requirements as stated in Section 2.05 of this Procedural Manual.
Individual Commitment	A specific legal commitment of funds with specific terms and conditions for use by a specific Borrower purchasing a specific property.
Master Servicer	The company selected by Minnesota Housing to be the Master Servicer for the Mortgage Revenue Bond Mortgage Backed Securities Program.
New Construction/ Newly Constructed Residence	New construction or a newly constructed residence refers to a residence, which either has not been previously occupied or was completed within 24 months preceding the date of the home mortgage loan and was not subject to previous financing with a term greater than 24 months (i.e., a contract-for-deed, mortgage, or gap loan).
Personal Property	Property such as an appliance, a piece of furniture, a radio etc., which under applicable law is not a fixture.
Principal Residence	A property used as the primary domicile of the owner-occupant Borrower and his/her household.

Property Seller	The seller of the property under contract for sale to the Borrower who is using Minnesota Housing financing.
Qualified Homebuyer Education	Qualified Homebuyer Education is homebuyer education completed as outlined in its entirety in section 2.07 of this Procedural Manual.

Forms List

Acquisition Cost Worksheet – optional
Deferred Loan Program Note, if applicable
Deferred Loan Program Mortgage, if applicable
Monthly Loan Program Note, if applicable
Monthly Loan Program Mortgage, if applicable
Borrower Affidavit
FHA Streamlined 203K Appliance Form²
Income Eligibility Calculation Worksheet - optional
Mortgage Deed Amendment

- Fannie Mae HFA Preferred (Conventional)/RD;
- FHA; or
- VA.

Notice to Buyers FHA
Notice to Veteran and Consent
Property Seller Affidavit
Subsidy Recapture Disclosure Statement

Note: See the HOME HELP Program Procedural Manual for a listing of HOME HELP forms.

² Applicable only for FHA Streamlined 203K loans